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EDVEST COLLEGE SAVINGS PROGRAM

1999 Wisconsin Act 44, passed unanimously by the legislature and signed by Governor Tommy Thompson on April 11, 2000, significantly expands EdVest Wisconsin, which began operations in July 1997, as one of the nation's first state programs designed to help families save for their children's college tuition costs. The new savings options will be phased in, starting August 1, 2000, and will align the state's plans with the federal government's legislation for qualified state tuition programs (QSTP), passed shortly after EdVest was created.

EDVEST: THE COMPANION PROGRAMS

Under Act 44 and federal law, EdVest contributors may: 1) purchase credits toward college tuition and expenses on behalf of a beneficiary or 2) make contributions to a college savings account. Both plans are established to cover the beneficiary's "qualified higher education expenses", including tuition, fees, and the costs of room and board, books, supplies, and equipment required for enrollment or attendance at an eligible public or private institution of higher education, as defined by the federal government. (Previously, the state had designated the eligible schools.) The allowance for room and board is the amount charged annually by the school or \$2,500 for off-campus living other than living at home.

Act 44 adopts the QSTP maximum on account balances, which is an amount equal to five years of qualified undergraduate expenses at the most expensive U.S. institution approved for the program (a maximum of \$150,000 in 1999). Balances left over at the end of the five years can be transferred to another member of the family.

EdVest offers advantages to both contributors and beneficiaries in terms of state and federal estate and gift taxes and income tax deductions and deferrals. Parents may be eligible for a state income tax deduction of up to \$3,000 annually for contributions for each dependent child. Federal law prohibits a taxpayer from making contributions to both EdVest and an Education IRA in the same tax year. Taxpayers may, however, use the HOPE Tax Credit and the Lifetime Learning Credit in combination with the EdVest program.

Provisions are made for termination of EdVest contracts and accounts with refunds to the contract purchaser if the beneficiary dies, becomes disabled, or fails to enter or withdraws from school, but account earnings may be taxed and a federally mandated penalty may apply.

Act 44 requires that collections from the expanded EdVest plan be deposited with a financial firm, hired as the EdVest "vendor" by the Department of Administration. This firm will keep the accounts and communicate with participants. It is authorized to invest the funds in a wider variety of bonds and equities than was permitted under the original program.

EdVest: College Tuition and Expenses Program. The College Tuition and Expenses Program, administered by the Office of the State Treasurer, is a defined-benefit program in which the contributor may purchase "tuition units" that can be used to pay qualified educational costs on the beneficiary's behalf. Prior to Act 44, this was the state's only college savings program, and the law defined its scope narrowly in terms of participants and the expenses covered.

Previously, the law required that at the time the contract was executed, either the beneficiary or the contributor had to be a Wisconsin resident (or, in the case of a trust or corporate guardian, created or organized under Wisconsin law). Under the new law, residency requirements for this program are removed. However, the new law continues to limit purchasers to parents, grandparents, aunts, uncles, legal guardians, trusts created on the beneficiary's behalf, or individuals purchasing accounts for their own use.

The price of each EdVest unit is determined by the projected weighted-average of resident tuition for bachelor degree candidates in the University of Wisconsin System at the time the beneficiary will be attending school. Higher-priced options are provided based on combined tuition and mandatory student fees or on the costs at the Milwaukee or Madison campuses, which are more expensive. (Under the pricing system, it is projected that 100 units would cover the average yearly cost for the option chosen.) The state does not guarantee that the defined dollar value of the units will equal the cost of the UW tuition at the time they are redeemed.

Previously, the EdVest units could only be spent on tuition and mandatory student fees at a qualified institution in the United States, and the money was disbursed directly to the institution. Under Act 44, the dollar value of the tuition unit at the time the beneficiary attends school is available to the institution or the beneficiary on a semester-by-semester basis and the money may cover the broader range of expenditures allowed under the QSTP definition of qualified expenses.

EdVest: College Savings Program. Act 44 creates a defined-contribution program in which anyone may open an account for a prospective student, regardless of residence or relationship to the beneficiary. Individuals may open accounts for themselves, and a prospective student may be the beneficiary of more than one college savings account. All contributions must be made in cash, which can include checks and automatic withdrawals from the owner's checking or savings account. Several investment choices will be available, including stock or mutual fund options.

Deposits and earnings in the college savings accounts may be withdrawn for any of the qualified expenses. Distributions are made according to the directions of the account owner who can choose payouts to the beneficiary, the owner, the institution, or another party, such as the student's parent.

Federal income taxes on account earnings are deferred until withdrawal and are the obligation of the student, who presumably will be in a lower tax bracket than the owner. Account earnings on both plans are exempt from state income tax.

Act 44 creates a College Savings Board to administer the savings account program. The board, which is appointed by the governor with the advice and consent of the senate, includes among its 11 members: the State Treasurer; the presidents of the UW Board of Regents, the Technical College System Board, and the Wisconsin Association of Independent Colleges and Universities; and the State Investment Board chairperson or their designees.

FURTHER INFORMATION

For further information, contact the EdVest program at (888) 338-3789 or (608) 264-7899 in the Madison area or by email at edvest@ost.state.wi.us. The program's Web site is: <http://edvest.state.wi.us>.